



FORTY-THIRD ANNUAL REPORT

OF THE

Southern Pacific Lines

AND

Affiliated Companies

Year Ended December 31

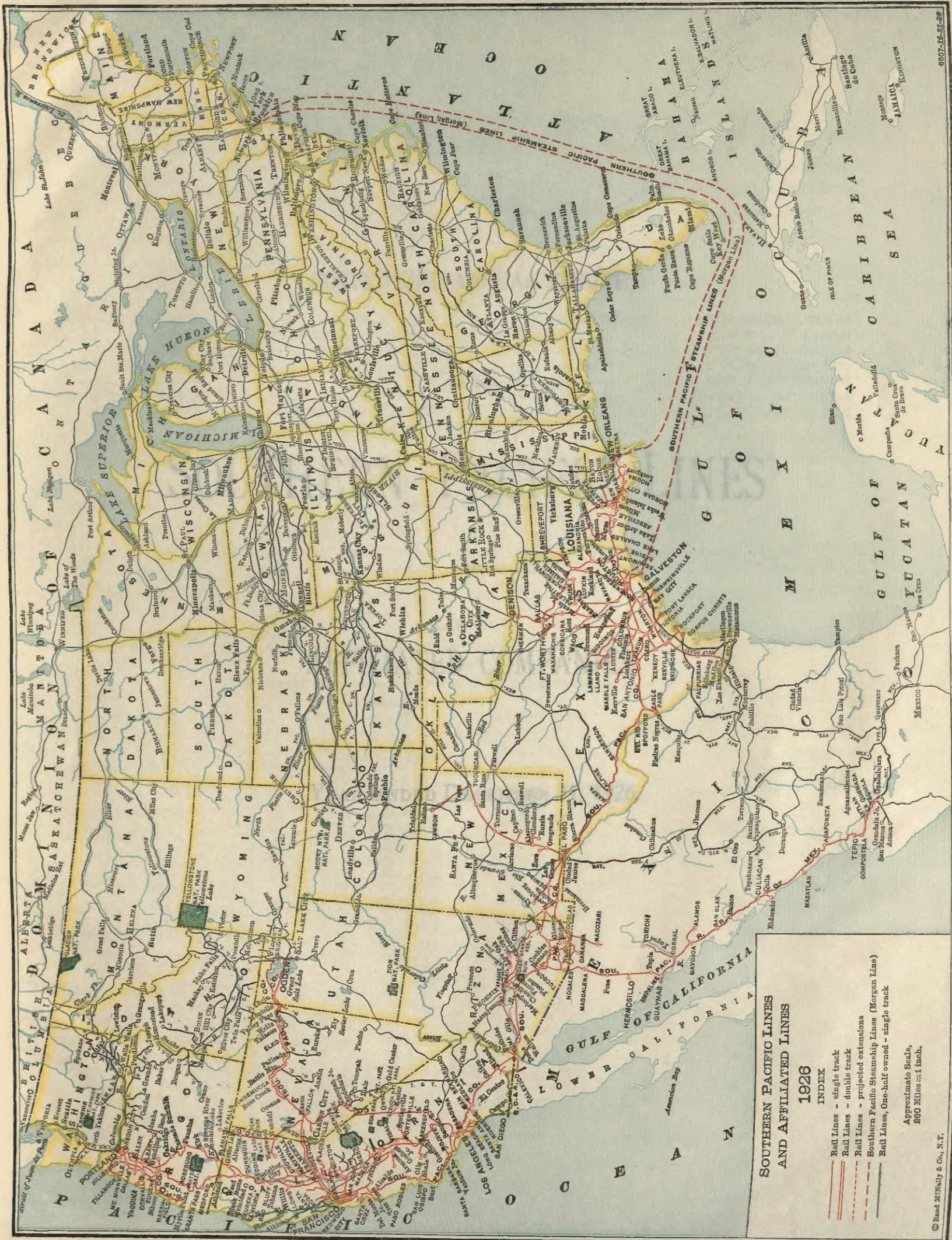
1926

(CONDENSED REPORT)

NOTICE TO STOCKHOLDERS

To enable your Company, as promptly as possible after the close of the year, to issue its annual report giving briefly the results of the year's operations and such general information concerning the Company's affairs as it is thought you may desire, the report is published in this condensed form.

A small edition of the complete report containing detailed statements will be printed later, and in order that such edition may be limited to the minimum number of copies actually required, any stockholder desiring a copy of such complete report is requested to make application therefor to the Treasurer of the Company on or before May 1, 1927. In making such application the name of the stockholder and the address to which the complete report is to be sent, should be printed plainly.



**SOUTHERN PACIFIC LINES
AND AFFILIATED LINES**

1926

INDEX

- Rail Lines - single track
- Rail Lines - double track
- Rail Lines - projected extensions
- Southern Pacific Steamship Lines (Morgan Line)
- Rail Lines, One-half owned - single track

Approximate Scale,
250 Miles = 1 Inch.

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SOUTHERN PACIFIC COMPANY

58,680 STOCKHOLDERS

(December 31, 1926)

FORTY-THIRD ANNUAL REPORT

DIRECTORS

Montclair, N. J.
Chicago, Ill.
New York, N. Y.
Statenburg, N. Y.
Philadelphia, Pa.
San Francisco, Calif.
New York, N. Y.

T. M. JARVIS
CHANCEY MCCORMICK
A. D. McDONALD
GODDEN MILLS
SAMUEL KEE
PAUL SHURT
LEWIS J. SPENCE
San Francisco, Calif.

OF THE

New York, N. Y.
Oyster Bay, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.
San Francisco, Calif.
Williamsville, N. Y.

JAMES S. ALEXANDER
HENRY W. DE FOREST
CLEVE AND E. DODGE
WALTER DOUGLAS
T. HORACE HARDING
EDWARD S. HARKNESS
H. K. HUNTINGTON

SOUTHERN PACIFIC LINES

EDWARD S. HARKNESS
GODDEN MILLS
WILLIAM SPOONER

AND

JAMES S. ALEXANDER
WALTER DOUGLAS
T. HORACE HARDING

AFFILIATED COMPANIES

YEAR ENDED DECEMBER 31, 1926

WILLIAM S. HARKNESS
W. A. WOODWARD
T. O. EDWARDS
C. M. SCOTT
O. F. BIRD
T. W. MAH
C. R. HARDING
I. R. BELL
G. E. B. WELLS
E. J. WILSON
A. L. HAWLEY
E. C. WATKINS

New York, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.
New York, N. Y.

J. B. BLAIR
HUGH KERRILL
B. B. JOHNSON
GEORGE H. THORNTON
DORRIS M. BEE
CHARLES FRANKLIN
E. VAN NITE
MARION J. WILSON
W. F. BULL
E. D. STORER
J. A. SIMPSON
E. L. GOODWIN
WARREN M. ALDERSON

Chicago, Ill.
Chicago, Ill.
Chicago, Ill.
Chicago, Ill.

E. W. CLARK, JR.
T. M. FLETCHER
C. T. COLLETT
O. F. BARRETT

SOUTHERN PACIFIC COMPANY

58,680 STOCKHOLDERS

(DECEMBER 31, 1926)

DIRECTORS

JAMES S. ALEXANDER,	NEW YORK, N. Y.	J. N. JARVIE,	MONTCLAIR, N. J.
HENRY W. DE FOREST,	OYSTER BAY, N. Y.	CHAUNCEY McCORMICK,	CHICAGO, ILL.
CLEVELAND E. DODGE,	NEW YORK, N. Y.	A. D. McDONALD,	NEW YORK, N. Y.
WALTER DOUGLAS,	NEW YORK, N. Y.	OGDEN MILLS,	STAATSBURG, N. Y.
J. HORACE HARDING,	NEW YORK, N. Y.	SAMUEL REA,	PHILADELPHIA, PA.
EDWARD S. HARKNESS,	NEW YORK, N. Y.	PAUL SHOUP,	SAN FRANCISCO, CALIF.
H. E. HUNTINGTON,	SAN GABRIEL, CALIF.	LEWIS J. SPENCE,	NEW YORK, N. Y.
WILLIAM SPROULE,	SAN FRANCISCO, CALIF.		

EXECUTIVE COMMITTEE

HENRY W. DE FOREST, *Chairman*

JAMES S. ALEXANDER

EDWARD S. HARKNESS

WALTER DOUGLAS

OGDEN MILLS

J. HORACE HARDING

WILLIAM SPROULE

A. D. McDONALD, *Vice Chairman*

OFFICERS

HENRY W. DE FOREST, *Chairman of the Executive Committee*, NEW YORK, N. Y.WILLIAM SPROULE, *President*, SAN FRANCISCO, CALIF.A. D. McDONALD, *Vice Chairman of the Executive Committee*, NEW YORK, N. Y.LEWIS J. SPENCE,
Executive Officer, NEW YORK, N. Y.PAUL SHOUP,
Executive Vice President, SAN FRANCISCO, CALIF.J. P. BLAIR,
General Counsel, NEW YORK, N. Y.HUGH NEILL,
Vice President and Secretary, NEW YORK, N. Y.H. B. JOHNSON,
Controller, NEW YORK, N. Y.GEORGE M. THORNTON,
Treasurer, NEW YORK, N. Y.GORDON M. BUCK,
Assistant Counsel, NEW YORK, N. Y.CHARLES FRANKLIN,
General Attorney, NEW YORK, N. Y.F. VAN NOTE,
Assistant Controller, NEW YORK, N. Y.MARION J. WISE,
Assistant to Vice Chairman, NEW YORK, N. Y.W. F. BULL,
Assistant Clerk and Assistant Secretary, NEW YORK, N. Y.P. B. STOFER,
Assistant to Controller, NEW YORK, N. Y.J. A. SIMPSON,
Assistant Treasurer, NEW YORK, N. Y.E. J. GOODWIN,
Transfer Agent, NEW YORK, N. Y.WARWICK M. ANDERSON,
Assistant Clerk, ANCHORAGE, KY.*WM. F. HERRIN,
Vice President and Chief Counsel, SAN FRANCISCO, CALIF.W. A. WORTHINGTON,
Vice President, SAN FRANCISCO, CALIF.GUY V. SHOUP,
General Solicitor, SAN FRANCISCO, CALIF.T. O. EDWARDS,
General Auditor, SAN FRANCISCO, CALIF.C. M. SCOTT,
Assistant Treasurer and Transfer Agent, SAN FRANCISCO, CALIF.G. L. KING,
Assistant Secretary, SAN FRANCISCO, CALIF.F. W. MAHL,
General Purchasing Agent, SAN FRANCISCO, CALIF.C. R. HARDING,
Engineer of Standards, SAN FRANCISCO, CALIF.J. R. BELL,
Commerce and Valuation Counsel and General Attorney, WASHINGTON, D. C.G. E. B. WELLES,
Valuation Officer, SAN FRANCISCO, CALIF.R. ADAMS,
Assistant General Auditor, SAN FRANCISCO, CALIF.A. L. HAWLEY,
Assistant General Auditor, SAN FRANCISCO, CALIF.R. C. WATKINS,
Agent, NEW ORLEANS, LA.E. W. CLAPP, *Traffic Manager*, CHICAGO, ILL.F. H. PLAISTED, *Freight Traffic Manager*, CHICAGO, ILL.C. T. COLLETT, *Freight Assistant*, CHICAGO, ILL.O. P. BARTLETT, *Passenger Assistant*, CHICAGO, ILL.

*Died February 28, 1927.

PACIFIC LINES

PAUL SHOUP, *Executive Vice President*, SAN FRANCISCO, CALIF.

OPERATING AND MAINTENANCE DEPARTMENTS

J. H. DYER, *General Manager*, SAN FRANCISCO, CALIF.

F. L. BURCKHALTER, *First Assistant General Manager*, SAN FRANCISCO, CALIF.

T. AHERN,
Assistant General Manager, Northern District, SACRAMENTO, CALIF.
T. H. WILLIAMS,
Assistant General Manager, Southern District, LOS ANGELES, CALIF.
A. E. SWEET,
Assistant General Manager, Eastern District, EL PASO, TEX.

GEORGE MCCORMICK,
General Superintendent of Motive Power, SAN FRANCISCO, CALIF.
R. L. RUBY,
Superintendent of Transportation, SAN FRANCISCO, CALIF.
W. H. KIRKBRIDE,
Engineer of Maintenance of Way and Structures, SAN FRANCISCO, CALIF.

TRAFFIC DEPARTMENT

J. T. SAUNDERS,
Freight Traffic Manager, SAN FRANCISCO, CALIF.
H. A. HINSHAW,
Assistant Freight Traffic Manager, SAN FRANCISCO, CALIF.
H. C. HALLMARK,
Assistant Freight Traffic Manager, SAN FRANCISCO, CALIF.
J. H. MULCHAY,
Assistant Freight Traffic Manager, PORTLAND, ORE.
F. E. SCOTT,
Assistant Freight Traffic Manager, LOS ANGELES, CALIF.
M. A. CUMMINGS,
General Freight Agent, SAN FRANCISCO, CALIF.
W. F. MILLER,
General Freight Agent, PORTLAND, ORE.
G. J. BLECH,
General Freight Agent, LOS ANGELES, CALIF.
W. C. BARNES,
General Freight Agent, EL PASO, TEX.

F. S. MCGINNIS,
Passenger Traffic Manager, SAN FRANCISCO, CALIF.
F. C. LATHROP,
Assistant Passenger Traffic Manager, SAN FRANCISCO, CALIF.
JOHN M. SCOTT,
Assistant Passenger Traffic Manager, PORTLAND, ORE.
C. L. MCFAY,
Assistant Passenger Traffic Manager, LOS ANGELES, CALIF.
N. KINELL,
General Passenger Agent, SAN FRANCISCO, CALIF.
J. A. ORMANDY,
General Passenger Agent, PORTLAND, ORE.
F. E. WATSON,
General Passenger Agent, LOS ANGELES, CALIF.
JOHN D. MASON,
General Passenger Agent, EL PASO, TEX.

E. J. FENCHURCH, *General Freight and Passenger Agent*, TUCSON, ARIZ.

LAW DEPARTMENT

J. R. BELL,
Commerce Counsel and General Attorney, WASHINGTON, D. C.
BEN C. DEY,
General Attorney, PORTLAND, ORE.
J. E. NEWMAN,
Claims Attorney, SAN FRANCISCO, CALIF.

GUY V. SHOUP, *General Solicitor*, SAN FRANCISCO, CALIF.
D. V. COWDEN,
Tax Attorney, SAN FRANCISCO, CALIF.
G. H. MUCKLEY,
Assistant General Attorney, WASHINGTON, D. C.
B. A. McALLASTER,
Land Commissioner, SAN FRANCISCO, CALIF.

ACCOUNTING AND TREASURY DEPARTMENTS

F. L. McCAFFERY,
Auditor, SAN FRANCISCO, CALIF.

C. M. SCOTT,
Assistant Treasurer, SAN FRANCISCO, CALIF.

MISCELLANEOUS

G. W. BOSCHKE,
Chief Engineer, SAN FRANCISCO, CALIF.
J. L. CAMPBELL,
Assistant to Chief Engineer, SAN FRANCISCO, CALIF.
W. B. COFFEY,
Chief Surgeon and Manager of Hospital Department, SAN FRANCISCO, CALIF.

F. W. TAYLOR,
Purchasing Agent, SAN FRANCISCO, CALIF.
C. J. McDONALD,
Superintendent Perishable Freight Service, SAN FRANCISCO, CALIF.
*H. P. THRALL,
Mail and Express Traffic Manager, SAN FRANCISCO, CALIF.

SOUTHERN PACIFIC STEAMSHIP LINES

LEWIS J. SPENCE, *Executive Officer*, 165 BROADWAY, NEW YORK, N. Y.

S. IRA COOPER,
Manager, PIER 49, NORTH RIVER, NEW YORK, N. Y.
E. H. PATTON,
Assistant Manager, PIER 49, NORTH RIVER, NEW YORK, N. Y.
E. E. LAMBERTON,
Assistant Manager, NEW ORLEANS, LA.
A. S. HEBBLE,
Superintending Engineer, PIER 49, NORTH RIVER, NEW YORK, N. Y.
H. M. WILKINS,
Assistant Manager and General Agent, GALVESTON, TEX.

WM. SIMMONS,
Traffic Manager, 165 BROADWAY, NEW YORK, N. Y.
C. D. ARNOLD,
General Freight Agent, 165 BROADWAY, NEW YORK, N. Y.
C. S. FAY,
Southern Freight Agent, NEW ORLEANS, LA.
J. T. MONROE,
Southern Passenger Agent, NEW ORLEANS, LA.
M. KERR,
Auditor, PIER 49, NORTH RIVER, NEW YORK, N. Y.

B. G. BARTHOLOMEW, *Treasurer*, PIER 49, NORTH RIVER, NEW YORK, N. Y.

COMPANY OFFICES

NEW YORK OFFICES, 165 Broadway
NEW ORLEANS OFFICES, Corner Poydras and Camp Streets
SAN FRANCISCO OFFICES, 65 Market Street
HOME OFFICE, Anchorage, Kentucky

REGISTRARS OF STOCK

CENTRAL UNION TRUST COMPANY OF NEW YORK, NEW YORK, N. Y.
THE ANGLO & LONDON PARIS NATIONAL BANK OF SAN FRANCISCO, SAN FRANCISCO, CALIF.

Annual Meeting of Stockholders, Wednesday following first Monday in April

*Died January 3, 1927.

SOUTHERN PACIFIC COMPANY

REPORT OF THE BOARD OF DIRECTORS

NEW YORK, N. Y., March 31, 1927.

TO THE STOCKHOLDERS OF THE SOUTHERN PACIFIC COMPANY:

Your Board of Directors submits this report of the operations and affairs of the Southern Pacific Lines and Affiliated Companies for the fiscal year ended December 31, 1926.

INCOME ACCOUNT

The following statements of income and of surplus show the income for the year and the accumulated surplus to the close of the year, accruing to Southern Pacific Company stock from the Transportation System and from all separately operated Solely Controlled Affiliated Companies, combined:

NET INCOME OF THE SOUTHERN PACIFIC LINES AND SOLELY CONTROLLED AFFILIATED COMPANIES, COMBINED, FOR THE YEAR 1926 COMPARED WITH THE YEAR 1925

	Year Ended December 31, 1926	+ Increase — Decrease	Per Cent	
1. Net income of Transportation System (Item 30, Page 7).....	*\$38,791,373.50	+	\$3,133,963.25	8.79
2. Net income of Affiliated Companies (Item 43, Page 19).....	*3,243,291.25	+	984,384.58	43.58
3. Net income of Transportation System and of all separately operated Solely Controlled Affiliated Companies, combined.....	*\$42,034,664.75	+	\$4,118,347.83	10.86
4. Per cent earned on average amount of capital stock of Southern Pacific Company outstanding during the year:				
(a) From operations of Transportation System.....	10.42	+	.85	8.88
(b) From operations of Affiliated Companies.....	.87	+	.26	42.62
(c) Total.....	11.29	+	1.11	10.90

* Excludes all inter-company dividends.

SURPLUS OF THE SOUTHERN PACIFIC LINES AND SOLELY CONTROLLED AFFILIATED COMPANIES, COMBINED, TO DECEMBER 31, 1926

	Debit	Credit
1. Total corporate surplus at December 31, 1925.....	—	\$441,499,804.94
2. Corporate surplus (or deficit), at date of acquisition, of companies taken over during year: Dayton-Goose Creek Railway Company (Surplus).....	—	434,522.20
Holton Inter-Urban Railway Company (Deficit).....	\$136,792.06	—
3. Credit balance transferred from income: Transportation System (Item 34, page 7).....	\$37,173,181.11	—
Affiliated Companies (Item 45, page 19).....	3,214,861.25	—
4. Dividends paid: On capital stock of Southern Pacific Company: 1½ per cent. paid April 1, 1926.....	\$ 5,585,713.58	—
1½ per cent. paid July 1, 1926.....	5,585,713.58	—
1½ per cent. paid October 1, 1926.....	5,585,713.58	—
1½ per cent. payable January 3, 1927.....	5,585,713.58	—
Total Southern Pacific Company.....	\$22,342,854.32	—
On capital stocks of Transportation System Companies held by the public.....	150.00	—
5. Miscellaneous adjustments during the year.....	22,343,004.32	—
6. Credit balance December 31, 1926.....	467,111,211.59	7,268,638.47
	\$489,591,007.97	\$489,591,007.97

† Includes adjustment on books of Southern Pacific Railroad Company of Mexico, account cancellation of interest due to Southern Pacific Company, such interest being a part of the unearned inter-company interest to be cancelled, as explained on page 7 of last year's report, the cancellation of which was held in abeyance pending settlement of certain tax matters with the Mexican Government.

INCOME ACCOUNT OF SOUTHERN PACIFIC LINES

7

The income account of the Transportation System (Southern Pacific Company and Transportation System Companies, combined, excluding offsetting accounts and inter-company dividends) for the year 1926, compared with the year 1925, was as follows, viz:

	Year Ended December 31, 1926	+ Increase - Decrease	Per Cent.
OPERATING INCOME			
1. Railway operating revenues.....	\$298,800,998.06	+ \$5,726,444.59	1.95
2. Railway operating expenses.....	215,595,480.27	- 13,837.92	.01
3. Net revenue from railway operations.....	\$83,205,517.79	+ \$5,740,282.51	7.41
4. Railway tax accruals.....	21,476,810.65	+ 201,528.63	.95
5. Uncollectible railway revenues.....	80,823.05	- 14,526.43	15.23
6. Equipment rents—Net.....	5,636,727.42	- 127,624.64	2.21
7. Joint facility rents—Net.....	214,438.90	+ 197,946.40	92.35
8. Net railway operating income.....	\$55,796,717.77	+ \$5,482,958.55	10.90
NONOPERATING INCOME			
9. Income from lease of road.....	\$95,316.15	+ \$13,462.71	16.45
10. Miscellaneous rent income.....	1,524,836.14	+ 31,153.34	2.09
11. Miscellaneous nonoperating physical property.....	260,960.70	- 53,503.12	17.01
12. Dividend income.....	†2,995,796.22	+ 214,819.56	7.72
13. Income from funded securities—Bonds and notes.....	3,121,177.95	- 54,388.30	1.71
14. Income from funded securities—Investment advances.....	70,197.02	- 532,148.80	88.35
15. Income from unfunded securities and accounts.....	2,273,963.86	- 91,965.80	3.89
16. Income from sinking and other reserve funds.....	993,577.93	+ 45,839.07	4.84
17. Miscellaneous income.....	571,197.57	+ 34,310.81	6.39
18. Total nonoperating income.....	\$11,907,022.64	- \$392,420.53	3.19
19. Gross income.....	\$67,703,740.41	+ \$5,090,538.02	8.13
DEDUCTIONS FROM GROSS INCOME			
20. Rent for leased roads.....	\$242,104.19	+ \$14,224.50	6.24
21. Miscellaneous rents.....	774,198.04	+ 13,206.42	1.74
22. Miscellaneous tax accruals.....	178,731.98	- 27,968.13	13.53
23. Interest on funded debt—Bonds and notes.....	27,034,924.61	+ 1,699,067.90	6.71
24. Interest on funded debt—Nonnegotiable debt to affiliated companies.....	662.53	- 2,815.73	80.95
25. Interest on unfunded debt.....	228,623.78	+ 16,282.84	7.67
26. Amortization of discount on funded debt.....	64,211.33	+ 34,012.73	112.63
27. Maintenance of investment organization.....	92,413.45	+ 53,532.98	137.69
28. Miscellaneous income charges.....	296,497.00	+ 157,031.26	112.59
29. Total deductions from gross income.....	\$28,912,366.91	+ \$1,956,574.77	7.26
30. Net income.....	\$38,791,373.50	+ \$3,133,963.25	8.79
DISPOSITION OF NET INCOME			
31. Income applied to sinking and other reserve funds.....	\$1,413,350.86	+ \$180,574.46	14.65
32. Income appropriated for investment in physical property.....	204,841.53	+ 78,172.78	61.71
33. Total appropriations.....	\$1,618,192.39	+ \$258,747.24	19.03
34. Income balance transferred to credit of profit and loss....	\$37,173,181.11	+ \$2,875,216.01	8.38

† Excludes all inter-company dividends.

INCOME ACCOUNT OF SOUTHERN PACIFIC LINES—CONTINUED

The operating income of the Transportation System is dealt with on pages 9, 10, 11, and 12. The causes of the principal increases and decreases in nonoperating income and in deductions from gross income, as shown in the statement on page 7, are explained below, viz:

NONOPERATING INCOME

The increase in the account Dividend Income (line 12), is due, principally, to an increase of \$169,632 in the dividends received on Pacific Oil Company stock, and to a dividend of a like amount, or two dollars per share, on 84,816 shares of Standard Oil Company of California stock, the said stock having been received as a partial liquidating dividend on the Pacific Oil shares owned by your Company.

The decrease of \$532,148.80 in the account Income from Funded Securities—Investment Advances (line 14), was caused by the inclusion in that account last year, of interest on investment advances, which was collected last year, but which accrued prior to January 1st of last year.

DEDUCTIONS FROM GROSS INCOME

The increase of \$1,699,067.90 in the account Interest on Funded Debt—Bonds and Notes (line 23), is made up, principally, as follows: Of \$1,492,915, representing the difference between a full year's interest this year, and the amount of interest accruing in 1925, on the \$40,000,000 of Central Pacific Railway Company Thirty-five Year Five Per Cent. Guaranteed Gold Bonds, and the \$10,491,000 of Southern Pacific Equipment Trust Certificates—Series H, issued last year; and of \$148,418 representing interest accruing this year on \$5,654,000 of Southern Pacific Equipment Trust Certificates—Series I, issued this year.

The increase of \$34,012.73 in the account Amortization of Discount on Funded Debt (line 26), is made up, principally, of the difference between a full year's accrual this year, and the portion applicable to, and taken into the accounts, last year, of discount on the \$40,000,000 of Central Pacific Railway Company Thirty-five Year Five Per Cent. Guaranteed Gold Bonds, issued last year.

The increase of \$53,532.98 in the account Maintenance of Investment Organization (line 27), is due, principally, to expenses incurred in prior years but paid during the current year, in connection with the Oregon & California Railroad land grant controversy.

The increase of \$157,031.26 in the account Miscellaneous Income Charges (line 28), is due, principally, to an increase in this Company's proportion of the annual charge for amortization of investment in Associated Pipe Line, the said charge being apportioned among the three owning companies (Associated Oil Company, Standard Oil Company of California, and Southern Pacific Company) on basis of use of the pipe line.

The dividends paid for 1926 were appropriated from the profit and loss surplus and, therefore, do not appear in the income account. Payments for 1926 compare with those for 1925 as follows:

	1926	1925	Decrease
On stock of Southern Pacific Company.....	\$22,342,854.32	\$22,342,854.32	—
On stock of Transportation System Companies held by the public.....	150.00	266,795.00	\$266,645.00
Total.....	\$22,343,004.32	\$22,609,649.32	\$266,645.00

As will be seen, the decrease of \$266,645.00 is due to a decrease in the dividends paid on stocks of Transportation System Companies held by the public. Of this amount, the sum of \$266,409.00 represents dividends paid last year on the 24,219 shares of Houston & Texas Central R. R. Co. stock held by minority interests, which stock, as was explained on page 21 of last year's report, was purchased by your Company on January 20, 1926.

TRANSPORTATION OPERATIONS—SOUTHERN PACIFIC LINES

The following table shows the Net Railway Operating Income and Traffic Statistics of the Transportation System for the year 1926 compared with those for the year 1925:

	Year Ended December 31, 1926	Year Ended December 31, 1925 *	+ Increase — Decrease	Per Cent
1. Average miles of road operated.....	13,279.69	13,178.69	+ 101.00	.77
NET RAILWAY OPERATING INCOME				
RAILWAY OPERATING REVENUES				
2. Freight.....	\$216,625,764.45	\$213,020,384.49	+ \$3,605,379.96	1.69
3. Passenger.....	55,262,330.25	56,292,246.57	— 1,029,916.32	1.83
4. Mail and express.....	11,434,005.02	11,146,987.57	+ 287,017.45	2.57
5. All other transportation.....	9,055,584.55	8,075,420.83	+ 980,163.72	12.14
6. Incidental.....	7,383,698.56	6,836,855.65	+ 546,842.91	8.00
7. Joint facility—Credit.....	418,677.65	261,336.59	+ 157,341.06	60.21
8. Joint facility—Debit.....	1,379,062.42	531,477.92	— 847,584.50	159.48
9. Total railway operating revenues.....	\$298,800,998.06	\$295,101,753.78	+ \$3,699,244.28	1.25
RAILWAY OPERATING EXPENSES				
10. Maintenance of way and structures.....	\$42,464,362.35	\$40,678,880.33	+ \$1,785,482.02	4.39
11. Maintenance of equipment.....	50,637,575.96	49,780,124.29	+ 857,451.67	1.72
12. Total maintenance.....	\$93,101,938.31	\$90,459,004.62	+ \$2,642,933.69	2.92
13. Traffic.....	6,359,577.56	5,682,279.22	+ 677,298.34	11.92
14. Transportation.....	102,132,949.91	107,847,718.86	— 5,714,768.95	5.30
15. Miscellaneous operations.....	4,997,186.30	4,706,362.26	+ 290,824.04	6.18
16. General.....	10,788,766.74	10,606,797.46	+ 181,969.28	1.72
17. Transportation for investment—Credit.....	1,784,938.55	1,540,592.84	— 244,345.71	15.86
18. Total railway operating expenses.....	\$215,595,480.27	\$217,761,569.58	— \$2,166,089.31	.99
19. Net revenue from railway operations.....	\$83,205,517.79	\$77,340,184.20	+ \$5,865,333.59	7.58
20. Railway tax accruals.....	\$21,476,810.65	\$21,340,397.79	+ \$136,412.86	.64
21. Uncollectible railway revenues.....	80,823.05	96,333.01	— 15,509.96	16.10
22. Railway operating income.....	\$61,647,884.09	\$55,903,453.40	+ \$5,744,430.69	10.28
23. Equipment rents—Net.....	5,636,727.42	5,847,252.33	— 210,524.91	3.60
24. Joint facility rents—Net.....	214,438.90	12,825.99	+ 201,612.91	—
25. Net railway operating income.....	\$55,796,717.77	\$50,043,375.08	+ \$5,753,342.69	11.50
TRAFFIC STATISTICS				
(STEAM RAIL LINES)				
FREIGHT TRAFFIC				
26. Freight service train-miles.....	26,681,727	26,472,441	+ 209,286	.79
27. Tons carried—revenue freight.....	59,156,625	60,451,664	— 1,295,039	2.14
28. Ton-miles—revenue freight.....	14,724,692,862	14,666,167,536	+ 58,525,326	.40
29. Loaded cars per train.....	27.92	27.47	+ .45	1.64
30. Net tons per train—all freight.....	628.97	626.81	+ 2.16	.34
31. Revenue per ton-mile—revenue freight.....	1.401 cents	1.386 cents	+ .015 cents	1.08
32. Average distance carried—revenue freight.....	248.91	242.61	+ 6.30	2.60
PASSENGER TRAFFIC				
33. Passenger service train-miles.....	26,810,563	26,959,750	— 149,187	.55
34. Passengers carried—revenue.....	14,284,559	14,511,525	— 226,966	1.56
35. Passenger-miles—revenue.....	1,837,935,341	1,864,131,918	— 26,196,577	1.41
36. Passengers per train—revenue passengers.....	66.79	67.06	— .27	.40
37. Passenger revenue per passenger-mile.....	2.866 cents	2.883 cents	— .017 cents	.59
38. Average distance carried—revenue passengers.....	128.67	128.46	+ .21	.16

* For the purpose of comparison, the 1925 figures in the above statement include the operations, for the entire year 1925, of the San Antonio & Aransas Pass, taken into the System May 1, 1925; while the 1925 figures in the income account of the Transportation System on Page 7, represent the operations of the lines actually included in the System in 1925, during the period while so included.

TRANSPORTATION OPERATIONS—SOUTHERN PACIFIC LINES—CONTINUED

The following tabulation gives the transportation operations for the years 1922, 1923, 1924, 1925, and 1926, compared with the year 1917, the last year prior to Federal control, and with 1921, the first complete year subsequent to Federal control, the figures being given in round thousand dollars:

	1926	1925	1924	1923	1922	1921	1917
Operating revenues.....	\$298,801	\$295,102	\$291,727	\$287,205	\$262,519	\$269,494	\$193,971
Per cent. of 1917.....	154.04	152.14	150.40	148.07	135.34	—	—
Per cent. of 1921.....	110.87	109.50	108.25	106.57	97.41	—	—
Operating expenses.....	\$215,595	\$217,762	\$214,812	\$207,167	\$193,664	\$212,572	\$120,601
Per cent. of 1917.....	178.77	180.56	178.12	171.78	160.58	—	—
Per cent. of 1921.....	101.42	102.44	101.05	97.46	91.11	—	—
Operating ratio.....	72.15	73.79	73.63	72.13	73.77	78.88	62.17
Net revenue from railway operations.....	\$83,206	\$77,340	\$76,915	\$80,038	\$68,855	\$56,922	\$73,370
Per cent. of 1917.....	113.41	105.41	104.83	109.09	93.85	—	—
Per cent. of 1921.....	146.18	135.87	135.12	140.61	120.96	—	—
Railway tax accruals.....	\$21,477	\$21,340	\$20,909	\$20,365	\$18,859	\$15,539	\$13,792
Per cent. of 1917.....	155.72	154.73	151.60	147.66	136.74	—	—
Per cent. of 1921.....	138.21	137.33	134.56	131.06	121.37	—	—
Net railway operating income.....	\$55,797	\$50,043	\$50,475	\$54,228	\$46,223	\$35,947	\$62,253
Per cent. of 1917.....	89.63	80.39	81.08	87.11	74.25	—	—
Per cent. of 1921.....	155.22	139.21	140.42	150.86	128.59	—	—
Traffic units (ton-miles plus three times passenger miles)—millions.....	22,679	22,584	21,929	21,044	18,012	17,451	20,877
Per cent. of 1917.....	108.63	108.18	105.04	100.80	86.28	—	—
Per cent. of 1921.....	129.96	129.41	125.66	120.59	103.21	—	—

As has been stated in reports for previous years, the Transportation Act of 1920 provides that the railways shall receive a fair return upon the aggregate value of railway property held for and used in the service of transportation, such fair return being $5\frac{3}{4}$ per cent., as last fixed by the Interstate Commerce Commission under authority of the Act. Notwithstanding the movement of a record volume of traffic and the marked gain in efficiency of operation, the existing rate structure, during each year since enactment of the Transportation Act, has failed to give your Company the fair return contemplated by the Act. The relationship of net railway operating income to the book value of road and equipment of the lines constituting your Transportation System, has been as follows:

1921.....	3.36 %
1922.....	4.29 %
1923.....	4.81 %
1924.....	3.99 %
1925.....	3.77 %
1926.....	3.98 %
Average return for 6 years.....	4.03 %

Total Railway Operating Revenues for 1926, which amounted to \$298,800,998.06, were the largest in the Company's history, exceeding by \$3,699,244.28, or 1.25 per cent., the previous high record which was established last year. This was the result of an increase of 58,525,326 ton-miles, over the record established last year, in the volume of revenue freight carried by your lines; and to the fact that the tonnage carried included a larger percentage of high class freight, resulting in an increase of .015 cents, or 1.08 per cent., in the revenue per ton-mile of revenue freight carried.

TRANSPORTATION OPERATIONS—SOUTHERN PACIFIC LINES—CONTINUED

The increase in Railway Operating Revenues of \$3,699,244 was accompanied by a decrease in operating expenses of \$2,166,089, an increase in taxes of \$136,412, and a decrease in equipment and joint facility rents and other charges, of \$24,422, the result being an increase in Net Railway Operating Income of \$5,753,343.

Freight revenue for the year increased \$3,605,380, a decrease on the Texas and Louisiana Lines being more than overcome by an increase on the Pacific Lines.

On the Pacific Lines, freight revenue increased \$4,154,032. Freight traffic for the first seven months of the year showed a substantial increase; this was partly offset by a decrease in the last five months of the year compared with the same five months of the previous year when a record volume of traffic was handled. The year as a whole shows increased revenue was received from such important commodities as oranges, lettuce, deciduous fruits, mineral oil, fresh vegetables, apples, grain, and cotton, which increases were partially offset by decreases in revenue received from grapes, hay, sugar, logs, and automobiles.

On the Texas and Louisiana Lines, freight revenue decreased \$1,176,733. This decrease was attributable, largely, to the effect on business, during the early part of this year, of the severe and unprecedented drouth extending over the Texas Lines in 1925, mentioned on page 12 of last year's report; and to a general depression in business resulting from the low price of cotton. The Texas cotton crop was the largest in the history of the state, the yield being estimated at around 6,000,000 bales. This large increase in the cotton crop of Texas, together with reports of the increased crop in other parts of the United States, caused a marked decline in the price of cotton, resulting in a general business depression in the territory served by the Texas and Louisiana Lines. There was also a large decrease in the volume of mineral oil moved, caused by pipe line competition and by a decline in the production of fields tributary to our lines. These conditions resulted in a decrease of approximately 344,000,000 ton-miles, or 8.4 per cent., in the volume of traffic moved.

While the low price of cotton in Louisiana and Texas is disquieting, yet, because of the delayed movement of last season's enormous yield, the constructive manner in which the cotton situation is being met by crop diversification programs, and the progressive spirit of the territory, it is thought that the business of these lines for 1927, in the aggregate, should at least equal that of 1926.

Passenger revenue decreased \$1,029,916. On the Pacific Lines, a decrease of \$835,905 was due, principally, to the increasing use of automobiles (both commercial and private), and to a decrease in summer excursion travel and in travel to and from conventions on the Pacific Coast, all of which more than offset an increase of \$599,000, resulting from an increase in fares on the San Francisco Ferry and East Bay Electric Lines, effective in January, 1926, and from a 5 per cent. increase in eastbound and westbound summer excursion fares, effective in May, 1926. On the Texas and Louisiana Lines, a decrease of \$223,614 was the result, mainly, of an increase in automobile competition.

All Other Transportation revenue increased \$980,164, due, principally, to an increase in automobile ferry traffic at San Francisco, and to increased switching and Pullman earnings.

Maintenance of Way and Structures increased \$1,785,482, or 4.39 per cent., the result of increased renewals of rails and fastenings, ties, and ballast, due to requirements of upkeep programs, and to the necessity for bringing certain portions of your lines up to main-line standard, to fit them for use as a part of through traffic routes established through construction of new lines. The following table gives the principal items of material used in repairs and renewals during the past five years:

MATERIAL USED IN REPAIRS AND RENEWALS.

	1926	1925	1924	1923	1922
New steel rail, track miles.....	510.14	349.09	403.32	458.12	287.21
Ties, number.....	4,832,239	4,767,408	3,973,715	3,971,158	4,024,967
Ties, number per mile.....	248	252	222	245	251
Tie-plates, number.....	7,516,596	6,162,239	5,485,332	5,390,530	4,084,974
Piling, lineal feet.....	489,580	883,017	766,208	825,745	608,467
Lumber, feet b.m.....	27,528,359	37,661,011	32,023,097	26,463,926	27,842,532

TRANSPORTATION OPERATIONS—SOUTHERN PACIFIC LINES—CONTINUED

Maintenance of Equipment increased \$857,452, or 1.72 per cent., due, principally, to increased repairs of freight and passenger cars.

Traffic Expenses increased \$677,298, or 11.92 per cent., due, principally, to expenditures for outside agencies and for advertising, to obtain our share of competitive traffic.

Transportation Expenses decreased \$5,714,769, or 5.30 per cent. This was due, mainly, to a decrease in the cost of fuel for locomotives, resulting partly from lower prices of fuel and partly from a saving in fuel consumption. While there was an increase of 58,525,326 ton-miles in the volume of traffic handled, an increase in the train load enabled us to handle this increased traffic with approximately the same number of train-miles as last year.

The constant campaign carried on for years to reduce fuel consumption in locomotives, has been reflected by a gradual but large reduction in the amount of fuel used in proportion to the ton-miles of traffic moved. The reduction in pounds of fuel used per 1,000 gross ton-miles in 1926, under 1925, amounted to 10.92 per cent. in passenger service, and 3.53 per cent. in freight service. The value of the economy realized in 1926 compared with 1925, amounted to \$1,156,775, and in 1926 compared with 1913, to \$11,038,315. The following table shows results obtained in fuel economy in 1926, compared with the preceding two years, and with the year 1913:

LOCOMOTIVE FUEL PERFORMANCE	1926	1925	1924	1913	COMPARISON OF 1926 WITH		
					1925	1924	1913
Pounds of fuel per 1,000 gross ton-miles:							
Passenger service	126.35	141.84	149.30	206.67	10.92%	15.37%	38.86%
Freight service	124.67	129.23	132.11	192.83	3.53%	5.63%	35.35%
Value of fuel saved in							
1926 over 1925							\$1,156,775
1926 over 1924							1,793,388
1926 over 1913							11,038,315

Miscellaneous Operations increased \$290,824, or 6.18 per cent., due, principally, to increased dining car service; and to expense of operating Sunset Grain Elevator at Galveston, Texas, which was not operated during 1925.

Railway Tax Accruals for the year amounted to \$21,476,811, an increase over 1925, of \$136,413, or .64 per cent. The taxes for the year consumed 25.8 per cent. of the net revenue from railway operations, and almost equaled the total dividends paid to stockholders. The relation of taxes to net revenue from railway operations, from 1885 to date, is shown in Diagram No. 5 on page 34.

Expenses incurred during the year on account of Federal valuation of railways, amounted to \$994,649 making the total disbursements on this account from the time the work began to the close of the present year, \$7,400,758.

CAPITAL STOCK—SOUTHERN PACIFIC LINES

The decrease during the year in capital stocks of Southern Pacific Company and Transportation System Companies *held by the public* amounted to \$2,425,100.00, as follows:

Capital stock of Houston & Texas Central Railroad Company, acquired from Minority Stockholders, as mentioned on page 21 of last year's report.....	\$2,421,900.00	
Other capital stocks of Transportation System Companies, acquired from the public during the year.....	3,200.00	
Decrease in capital stocks held by the public.....		<u>\$2,425,100.00</u>

FUNDED DEBT—SOUTHERN PACIFIC LINES

The increase during the year in funded debt of Southern Pacific Company and Transportation System Companies *held by the public* amounted to \$1,797,353.52, as follows:

Southern Pacific Company Four and One-Half Per Cent. Equipment Trust Certificates, Series I, issued to provide for the construction and acquisition of new rolling stock.....	\$5,654,000.00	
El Paso & Southwestern Railroad Company First & Refunding Mortgage Five Per Cent. Gold Bonds, issued to the public in exchange for bonds of subsidiary companies, in pursuance of readjustment plan approved by the Interstate Commerce Commission, December 26, 1923.....	214,000.00	
Southern Pacific Railroad Company First Refunding Mortgage Four Per Cent. Bonds held in Oregon & California Railroad Company's First Mortgage Sinking Fund at the close of last year, which were sold to the public during the year by the Trustee, the proceeds from such sale to be used by the Trustee in redeeming Oregon & California Railroad Company's First Mortgage Bonds, in accordance with the provisions of said sinking fund.....	38,000.00	
Total issued to the public during the year	\$5,906,000.00	
Less: Funded debt held by the public, retired during the year.....	4,108,646.48	
Increase in funded debt held by the public.....		<u>\$1,797,353.52</u>

BALANCE SHEET OF SOUTHERN PACIFIC LINES
SOUTHERN PACIFIC COMPANY AND TRANSPORTATION SYSTEM COMPANIES, COMBINED
ASSETS—DECEMBER 31, 1926, COMPARED WITH DECEMBER 31, 1925, EXCLUDING OFFSETTING ACCOUNTS

ASSETS	DECEMBER 31, 1926	DECEMBER 31, 1925	INCREASE	DECREASE
INVESTMENTS				
Investment in road and equipment.....	\$1,400,075.85	\$1,341,287.49	\$58,788.35	
Improvements on leased railway property.....	531,267.39	244,284.72	286,982.67	
Sinking funds.....	21,838,331.56	18,746,876.67	3,091,454.89	
Deposits in lieu of mortgaged property sold.....	1,860,350.15	2,984,390.90	—	\$1,124,040.75
Miscellaneous physical property.....	3,993,581.80	12,523,188.03	—	8,529,606.23
Investments in affiliated companies:				
Stocks.....	366,788,163.73	312,726,308.43	54,061,855.30	
Bonds.....	162,184,643.70	151,019,824.15	11,164,819.55	
Stocks } Cost inseparable.....	54,407,340.15	54,503,340.15	—	96,000.00
Bonds }				
Notes.....	25,618,499.34	28,900,839.61	—	3,282,340.27
Advances.....	36,956,474.47	87,518,748.49	—	50,562,274.02
Other investments:				
Stocks.....	55,285.70	1,592,120.01	—	1,536,834.31
Bonds.....	2,625,151.85	2,687,978.86	—	62,827.01
Notes.....	381,845.98	397,205.65	—	15,359.67
Advances.....	65,058.78	93,752.16	—	28,693.38
Miscellaneous.....	1,131,475.26	1,111,377.23	20,098.03	
Total	\$2,078,513,321.08	\$2,016,337,730.46	\$62,175,590.62	
CURRENT ASSETS				
Cash.....	\$24,916,418.05	\$24,467,095.33	\$449,322.72	
Demand loans and deposits.....	—	13,049,243.72	—	\$13,049,243.72
Time drafts and deposits.....	—	20,063,291.67	—	20,063,291.67
Special deposits.....	149,069.22	150,661.97	—	1,592.75
Loans and bills receivable.....	687,499.38	895,785.33	—	208,285.95
Traffic and car-service balances receivable.....	2,755,618.04	3,439,435.30	—	683,817.26
Net balance receivable from agents and conductors..	3,468,942.06	3,574,806.78	—	105,864.72
Miscellaneous accounts receivable.....	6,747,556.24	7,970,251.20	—	1,222,694.96
Material and supplies.....	42,582,351.12	32,940,084.75	9,642,266.37	
Interest and dividends receivable.....	3,094,657.47	2,907,153.22	187,504.25	
Rents receivable.....	5,833.33	5,833.33	—	
Other current assets.....	205,849.51	224,893.82	—	19,044.31
Total	\$84,613,794.42	\$109,688,536.42	—	\$25,074,742.00
DEFERRED ASSETS				
Working fund advances.....	\$109,931.49	\$88,554.87	\$21,376.62	
Insurance and other funds.....	25,360.00	25,360.00	—	
Other deferred assets.....	2,387,433.50	4,127,183.73	—	\$1,739,750.23
Total	\$2,522,724.99	\$4,241,098.60	—	\$1,718,373.61
UNADJUSTED DEBITS				
Rents and insurance premiums paid in advance.....	\$184,000.81	\$211,088.43	—	\$27,087.62
Discount on capital stock.....	3,988,600.00	3,988,600.00	—	
Discount on funded debt.....	2,024,000.66	2,088,211.99	—	64,211.33
Other unadjusted debits.....	11,750,560.82	10,809,868.13	\$940,692.69	
Securities issued or assumed—Unpledged..... (a)	2,158,575.00	2,719,975.00	—	561,400.00
Securities issued or assumed—Pledged..... (a)	101,250.00	101,250.00	—	
Total	\$17,947,162.29	\$17,097,768.55	\$849,393.74	
Grand total	\$2,183,597,002.78	\$2,147,365,134.03	\$36,231,868.75	

(a) Excluded from total assets, and a corresponding amount excluded from outstanding funded debt in accordance with regulations of the Interstate Commerce Commission.

BALANCE SHEET OF SOUTHERN PACIFIC LINES

15

SOUTHERN PACIFIC COMPANY AND TRANSPORTATION SYSTEM COMPANIES, COMBINED
LIABILITIES—DECEMBER 31, 1926, COMPARED WITH DECEMBER 31, 1925, EXCLUDING OFFSETTING ACCOUNTS

LIABILITIES	DECEMBER 31, 1926	DECEMBER 31, 1925	INCREASE	DECREASE
CAPITAL STOCK				
Southern Pacific Company.....\$372,380,905.64				
Transportation System Companies... 398,029,900.00				
Total.....\$770,410,805.64				
Held by the public.....	\$372,406,315.64	\$374,831,415.64	—	\$2,425,100.00
Held within the system.....	398,004,490.00	395,554,390.00	\$2,450,100.00	—
Total stock.....	\$770,410,805.64	\$770,385,805.64	\$25,000.00	—
Premium on capital stock of Southern Pacific Company (a) \$6,304,440.00		\$6,304,440.00	—	—
Total.....	\$776,715,245.64	\$776,690,245.64	\$25,000.00	—
LONG TERM DEBT				
Funded debt unmatured:				
Southern Pacific Company.....\$216,431,885.00				
Transportation System Companies 520,855,743.61				
Total.....\$737,287,628.61				
Held by the public.....	\$599,267,988.36	\$597,470,634.84	\$1,797,353.52	—
Held within the system..... (b) 138,019,640.25		131,794,640.25	6,225,000.00	—
Total funded debt.....	\$737,287,628.61	\$729,265,275.09	\$8,022,353.52	—
Nonnegotiable debt to Affiliated Companies:				
Open accounts.....	40,997,591.09	35,924,019.53	5,073,571.56	—
Total.....	\$778,285,219.70	\$765,189,294.62	\$13,095,925.08	—
CURRENT LIABILITIES				
Loans and bills payable.....	\$18,715.05	\$125,000.00	—	\$106,284.95
Traffic and car-service balances payable.....	5,919,662.38	6,266,646.62	—	346,984.24
Audited accounts and wages payable.....	20,297,417.76	17,208,279.33	\$3,089,138.43	—
Miscellaneous accounts payable.....	1,454,783.20	1,417,384.69	37,398.51	—
Interest matured unpaid.....	313,985.05	305,591.61	8,393.44	—
Interest payable January 1st.....	4,202,637.50	4,209,242.50	—	6,605.00
Dividends matured unpaid.....	70,040.01	80,119.69	—	10,079.68
Dividends payable January 1st.....	5,585,713.58	5,585,713.58	—	—
Funded debt matured unpaid.....	14,000.00	15,000.00	—	1,000.00
Unmatured dividends declared.....	250,000.00	250,000.00	—	—
Unmatured interest accrued.....	6,274,465.16	6,236,425.18	38,039.98	—
Unmatured rents accrued.....	143,553.48	91,327.47	52,226.01	—
Other current liabilities.....	939,405.85	880,496.03	58,909.82	—
Total.....	\$45,484,379.02	\$42,671,226.70	\$2,813,152.32	—
DEFERRED LIABILITIES				
Other deferred liabilities.....	\$354,630.63	\$941,996.20	—	\$587,365.57
UNADJUSTED CREDITS				
Tax liability.....	\$4,721,574.14	\$8,318,128.57	—	\$3,596,554.43
Insurance and casualty reserves.....	3,665,161.09	3,301,094.56	\$364,066.53	—
Accrued depreciation—Road..... (c) 2,507,081.28		2,436,737.25	70,344.03	—
Accrued depreciation—Equipment.....	94,921,611.68	86,022,224.75	8,899,386.93	—
Other unadjusted credits.....	42,948,043.74	48,949,991.33	—	6,001,947.59
Total.....	\$148,763,471.93	\$149,028,176.46	—	\$264,704.53
CORPORATE SURPLUS				
Additions to property through income and surplus...	\$8,950,512.54	\$8,323,891.06	\$626,621.48	—
Funded debt retired through income and surplus...	26,945,066.85	26,613,409.07	331,657.78	—
Sinking fund reserves.....	20,315,815.33	15,174,537.71	5,141,277.62	—
Miscellaneous fund reserves.....	52,802.45	—	52,802.45	—
Appropriated surplus not specifically invested.....	3,818,177.83	3,818,177.83	—	—
Total appropriated surplus.....	\$60,082,375.00	\$53,930,015.67	\$6,152,359.33	—
Profit and loss—Balance.....	373,911,680.86	358,914,178.74	14,997,502.12	—
Total corporate surplus.....	\$433,994,055.86	\$412,844,194.41	\$21,149,861.45	—
Grand total.....	\$2,183,597,002.78	\$2,147,365,134.03	\$36,231,868.75	

(a) Represents difference between \$27,319,240, par value, Four Per Cent. Twenty-Year Convertible Bonds converted into Common Stock, and \$21,014,800, par value, Common Stock issued in exchange therefor. (b) Includes \$17,918,000 held in sinking funds of Transportation System Companies, \$269,000 held in sinking funds of Solely Controlled Affiliated Companies, and \$478,000 held in treasury of Solely Controlled Affiliated Companies. (c) Represents accrued depreciation on electric power plants and substations, general office building at San Francisco, wood preserving works, Sacramento rolling mill, oil storage plants, grain elevators, and similar facilities.

INVESTMENT ASSETS—SOUTHERN PACIFIC LINES

The following is a brief description of the investment assets of the Transportation System reported in the balance sheet (page 14), viz:

INVESTMENT IN TRANSPORTATION PROPERTY.....	\$1,400,607,118.61
Book value of investment in transportation property carried on the books of the companies comprising the Transportation System, consisting of 13,416 miles of first main track, 952 miles of additional main tracks, 5,598 miles of yard tracks and sidings, the Company's terminals at Galveston, a ten-story office building in San Francisco, 2,454 locomotives, 2,910 passenger-train cars, 80,603 freight-train cars, 5,942 company service cars, 23 ocean steamships, 4 river steamships, 10 automobile ferry boats, 13 passenger ferry and car transfer boats, 11 tugs, 78 barges, and 19 other vessels, the whole forming a transcontinental system extending from New York via New Orleans and Galveston, to San Francisco, California, and to Portland, Oregon, with a line extending from Ogden, Utah, to San Francisco, California.	
SINKING FUNDS.....	21,838,331.56
Sinking funds for the redemption of outstanding funded debt, consisting principally of \$17,918,000, par value, bonds of Transportation System Companies, \$1,885,000, par value, bonds of other companies, and \$2,429,631.86 cash in hands of Trustees.	
MISCELLANEOUS PHYSICAL PROPERTY.....	3,993,581.80
Book value of terminal and other real estate acquired in anticipation of future use.	
INVESTMENTS IN AFFILIATED COMPANIES.....	645,955,121.39
Investments in securities of Transportation System Companies, which are included in the outstanding obligations as shown by the balance sheet, but which are owned within the system;	
Investments in securities of, and advances to, Solely Controlled Affiliated Companies and Jointly Controlled Affiliated Companies collateral to, but not a part of, the Transportation System, representing, principally, investments as follows:	
Electric Railways in California (full ownership), operated mileage,	898.85
Steam Railways (full ownership), operated mileage.....	1,432.84
Steam Railways (half ownership), operated mileage.....	741.20
Total operated mileage of railways collateral to, but not a part of, the Transportation System.....	3,072.89
Lumber Companies (full ownership), owning 22,667 acres of timber lands, 43,826 acres of other lands, 2 saw mills, etc. Average annual production of manufactured lumber, 36,000,000 feet B.M., and of railroad ties, 7,000,000 feet B.M.;	
Land Companies (full ownership), owning 9,705,335 acres of lands in various states traversed by the Southern Pacific Lines; and 6,289 town lots. Of these town lots, 2,979 are located in the State of Texas; 659 in the State of Nevada; and 2,651 in the State of California of which 1,149 are located in Los Angeles and vicinity;	
Coal Companies (full ownership), owning 22,688 acres of coal lands in Oregon and Colorado, and 6,321 acres of prospective coal lands, and 2,457 acres of lignite, clay, and other lands in Texas;	
Oil Companies (full ownership), owning 5,091 acres (including 3,753 acres fully owned and 1,338 acres jointly owned), and holding under lease 15,479 acres, of producing and prospective oil lands in Texas and Louisiana, and near Tampico, Mexico, together with ownership of mineral rights in 84,620 acres of prospective oil lands in Texas. Number of producing wells, 182. Annual production, about 4,000,000 barrels;	
Carried forward.....	\$2,072,394,153.36

INVESTMENT ASSETS—SOUTHERN PACIFIC LINES—CONTINUED

Brought forward \$2,072,394,153.36

Terminal Companies (full ownership), owning 25 acres of land in the City of Los Angeles, California, with improvements, including three two-story market buildings, and one seven-story, two six-story, and one four-story warehouse buildings situated on the line of Southern Pacific in the heart of the wholesale district of Los Angeles;

Rockaway Pacific Corporation (full ownership), owning about 565 acres of land on Jamaica Bay, near Brooklyn, N. Y.;

Southern Pacific Building Co. (full ownership), owning a nine-story office building at Houston, Texas;

Associated Pipe Line Co. (one-third ownership), owning 561 miles of oil pipe line serving California oil fields;

Pacific Fruit Express Co. (half ownership), operating 38,584 refrigerator cars serving Southern Pacific, Union Pacific, and Western Pacific lines; and

Stock interest, as indicated, in following companies operating railroad terminal facilities:

El Paso (Texas) Union Passenger Depot Co., 50 per cent;

Ft. Worth (Texas) Union Passenger Station Co., 50 per cent;

Northern Pacific Terminal Co. (Portland, Ore.) 20 per cent;

Ogden (Utah) Union Railway & Depot Co., 50 per cent;

Union Terminal Co. (Dallas, Tex.) 12.50 per cent.

OTHER INVESTMENTS 6,119,167.72

Of this amount, \$1,486,244.26 represents cash in hands of Trustee to be applied in payment for new equipment; and the remainder represents, principally, investments in outside securities.

Total Investments \$2,078,513,321.08

ROAD AND EQUIPMENT—SOUTHERN PACIFIC LINES

The increase during the year in Investment in Road and Equipment of the Transportation System, as shown in the balance sheet (page 14), amounted to \$58,788,355.82, as follows:

Expenditures for Road Extensions.....	\$10,801,384.96
Expenditures for Rolling Stock.....	11,795,409.92
Expenditures for Floating Equipment.....	695,916.33
Expenditures for Other Additions and Betterments.....	28,149,043.68

Total Expenditures..... \$51,441,754.89

Add

Investment in road and equipment of the Dayton-Goose Creek Railway Company at May 1, 1926, on which date such company was taken into the Transportation System as explained on page 23.....	\$748,337.51
Adjustment account transfer of value of land held for transportation purposes from account "Miscellaneous Physical Property".....	8,398,001.71
Value of transportation property of Industrial Development and Land Company (a Solely Controlled Affiliated Company dissolved during the year) which property was taken over by Southern Pacific Company upon the dissolution of said Affiliated Company.....	5,532,224.20
	14,678,563.42
	<u>\$66,120,318.31</u>

Deduct

Property retired, equipment vacated, and other adjustments.....	7,331,962.49
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Net increase in Investment in Road and Equipment..... \$58,788,355.82

The following table shows the number of units of each class of rolling stock owned at December 31, 1926, and at December 31, 1925, and the number of units of each class added and retired during year:

CLASS	OWNED DEC. 31, 1926	OWNED DEC. 31, 1925	CHANGES DURING THE YEAR	
			Added *	Retired
Locomotives.....	2,454	2,440	52	38
Passenger-train cars.....	2,910	2,927	76	93
Freight-train cars.....	80,603	79,170	2,350	917
Work equipment.....	5,942	5,883	378	319

* Includes 2 locomotives, 2 passenger-train cars, and 3 freight-train cars acquired with Dayton-Goose Creek Railway Company taken into System during the year.

To provide for increased requirements and to replace vacated equipment, your Company will add to its equipment, during 1927, by construction at Company shops, or by purchase from outside builders, rolling stock as follows, viz:

	Company Shops	Outside Builders	Total
Locomotives.....	8	10	18
Passenger-train cars.....	—	81	81
Freight-train cars.....	1,300	1,200	2,500
Company service equipment.....	7	14	21

The estimated cost of this equipment is \$9,400,000.

Contracts were made during the year for the construction of one ocean-going passenger and freight steamer of approximately 12,000 tons displacement, for use in the Company's Atlantic Steamship Lines coastwise service; also for the construction of three additional automobile ferry steamers, for service between San Francisco and Oakland, to accommodate the increase in local automobile traffic between these points. The cost of this floating equipment will approximate \$4,000,000.

The total estimated cost of the new rolling stock and of floating equipment mentioned above, which is in addition to equipment completed and placed in service during 1926, amounts to \$13,400,000.

BALANCE SHEET AND INCOME ACCOUNT OF SOLELY CONTROLLED AFFILIATED COMPANIES

19

Below will be found a condensed balance sheet as of December 31, 1926, and a condensed income account for the year 1926, of all separately operated Solely Controlled Affiliated Companies, combined:

BALANCE SHEET		DEC. 31, 1926
ASSETS		
1. Property investment.....		\$250,221,190.87
2. Sinking funds.....		268,270.69
3. Investments in affiliated companies—Stocks.....		337,838.64
4. Investments in affiliated companies—Bonds.....		418,950.00
5. Investments in affiliated companies—Advances.....		33,192,155.02
6. Other investments.....		14,006,390.99
7. Cash.....		1,235,472.65
8. Accounts receivable.....		3,426,693.44
9. Material and supplies.....		5,349,070.07
10. Merchandise.....		1,373,881.48
11. Deferred assets.....		2,481,768.90
12. Discount on securities.....		11,402,395.40
13. Other unadjusted debits.....		22,142,876.36
14. Grand total.....		\$345,856,954.51
LIABILITIES		
15. Capital stock.....		*\$149,936,368.00
16. Premium on capital stock.....		535,151.75
17. Funded debt:		
(a) Held by the public.....	\$31,779,000.00	
(b) Held within the system.....	30,468,000.00	
(c) Total.....		62,247,000.00
18. Nonnegotiable debt to affiliated companies.....		61,731,447.97
19. Current liabilities.....		4,703,581.95
20. Deferred liabilities.....		471,834.22
21. Accrued depreciation.....		12,685,952.55
22. Reserve for amortization of property investment.....		8,887,708.46
23. Other unadjusted credits.....		11,540,753.88
24. Total liabilities.....		\$312,739,798.78
25. Additions to property through income and surplus.....		\$1,010,493.05
26. Sinking fund reserves.....		302,776.52
27. Appropriated surplus not specifically invested.....		700,000.00
28. Profit and loss—Balance.....		31,103,886.16
29. Total corporate surplus.....		\$33,117,155.73
30. Grand total.....		\$345,856,954.51
INCOME ACCOUNT		YEAR ENDED DEC. 31, 1926
31. Operating revenues.....		\$36,816,264.18
32. Operating expenses (including depreciation).....		27,773,604.64
33. Net revenue from operations.....		\$9,042,659.54
34. Taxes.....		2,874,585.67
35. Uncollectible railway revenues.....		441.29
36. Equipment and joint facility rents—Net.....		428,402.53
37. Net operating income.....		\$5,739,230.05
38. Nonoperating income.....		1,760,148.93
39. Gross income.....		\$7,499,378.98
40. Interest on funded debt.....		\$3,104,510.00
41. Other deductions from gross income.....		1,151,577.73
42. Total deductions.....		\$4,256,087.73
43. Net income.....		\$3,243,291.25
44. Income applied to sinking and other reserve funds.....		\$28,430.00
45. Income balance transferred to credit of profit and loss.....		\$3,214,861.25

* The amount of outstanding capital stock includes \$1,600 owned by Directors and \$51,510 owned by the public; the remaining \$149,883,258 being owned within the system.

CLAIM FOR CLOSING COLORADO RIVER BREAK

On page 21 of last year's report, mention was made of a suit brought by your Company, by sanction of Act of Congress, in the Court of Claims, Washington, D. C., to enforce its claim against the Government of the United States for \$1,113,677.42 for expenditures incurred twenty years ago, at the instance of President Roosevelt, in closing a break in the Colorado River, which operation prevented permanent flood disaster to the property and people of the Imperial Valley. The Government's representatives have completed the checking of your Company's claim, and the taking of testimony in the suit is in progress.

CONSTRUCTION OF ADDITIONAL MAIN LINES IN ARIZONA

The last section of the additional main lines in Arizona, the construction of which was undertaken as a part of the general plan under which the control of the El Paso & Southwestern system of railways was acquired, as explained on page 25 of the 1924 annual report, was completed and placed in operation during the year. The construction of these additional lines in connection with the inclusion in the system of the El Paso & Southwestern lines, avoided the cost of constructing an urgently needed second line between Dome, Arizona, and El Paso, Texas, a distance of about 544 miles. The completion of these lines not only gives the main line route between Yuma, Arizona, and El Paso, Texas, the equivalent of a double track for all but 57 miles of the entire distance; but also places on the main line the important city of Phoenix, the capital of Arizona, provides through direct service for the rich irrigated Salt River Valley, and shortens the haul to existing sources of important traffic.

CASCADE LINE ON SHASTA ROUTE

(NATRON CUT-OFF)

The Natron Cut-Off (which will hereafter be referred to as the Cascade Line), mention of which was made in the annual report for the years 1923, 1924, and 1925, including the reconstruction of about 23 miles of the southerly portion of the line, specifically mentioned on page 22 of last year's report, was completed and placed in operation for through freight service and local passenger service in September, 1926. To allow proper time, however, for the settling or seasoning of the road bed, the establishment of through passenger service over the line has been deferred until the Spring of 1927. As completed this line extends from Natron, Oregon, to Black Butte, California, a distance of approximately 269 miles, the cost of which to the close of the year amounts to \$39,432,000. The completion of this line will shorten the distance between Portland and San Francisco approximately 25 miles, and will give two lines between Black Butte, California, and Springfield Junction, Oregon, (a) the old line over the Siskiyou Range with grades of 174 feet to the mile, and (b) the new line over the Cascade Range with grades of 95 feet to the mile. This will give your Company the equivalent of a double track for its heavy traffic between Oregon and California. The new line, because of its lighter grades and saving in curvature, will permit of faster schedules for through passenger and freight service, and this, with the saving in distance, will result not only in a saving in operating costs but also in a material saving of time for through passenger and freight service between Portland and San Francisco. The new line gives rail facilities heretofore unprovided to a region having heavy timber resources and a possible agricultural development which, it is expected, will furnish your Company with profitable traffic. Adequate passenger and freight service will continue to be maintained over the Siskiyou Line.

PROPOSED NEW LINES IN SOUTHERN OREGON AND NORTHERN CALIFORNIA

On page 22 of last year's annual report, mention was made of your Company's plans for the further development of the country lying generally to the east of the Cascade Line (Natron Cut-Off) in Southern Oregon and Northeastern California (which plans also contemplated the establishment of a new through route between the Willamette Valley and the Klamath Basin, in Oregon, and points on the main line across Nevada to Ogden, Utah, and beyond); and to the fact that, in furtherance of such plans, the Company had made application to the Interstate Commerce Commission for authority to acquire and/or to construct the following lines of railway as contemplated by such plans, viz:

PROPOSED NEW LINES IN SOUTHERN OREGON AND NORTHERN CALIFORNIA—CONTINUED

1. Acquisition of control of the Nevada-California-Oregon Railway through the purchase of securities of that Company;
2. Construction of a line extending from Klamath Falls, Oregon, through Cornell, California, to a connection with the Nevada-California-Oregon Railway near Alturas, California;
3. Acquisition of control through stock ownership of the Oregon, California and Eastern Railway, extending from Klamath Falls to Sprague River, Oregon, and the construction of certain extensions by that Company.

Mention was also made of the fact that while the Interstate Commerce Commission had our application under consideration, the situation was complicated by an application of the Oregon Trunk Railway, a Northern Pacific-Great Northern subsidiary, to extend its line from Bend, Oregon, south to Klamath Falls. This proposed extension of the Oregon Trunk Railway follows a route east of the Cascade Line; and from a point east of Paunina, on the Cascade Line, to Klamath Falls, the proposed route of such extension generally parallels the Cascade Line and the Oregon, California and Eastern Railway. In a decision rendered May 3, 1926, the Commission held that while the Oregon Trunk Railway should be granted an entrance to the Klamath Basin, the expense of constructing an additional line from Paunina to Klamath Falls should be avoided by the use of the existing facilities between those points. In such decision the Commission granted to your Company authority to acquire control of the Nevada-California-Oregon Railway, and to construct the line from Klamath Falls to a connection with the Nevada-California-Oregon Railway, as requested. It granted authority to your Company to acquire control of the Oregon, California and Eastern Railway and to the latter to construct certain extensions, upon the express condition that the Oregon Trunk Railway should be granted joint use of your Company's Cascade Line between Paunina and Klamath Falls, or joint use of the Oregon, California and Eastern Railway; and it granted to the Oregon Trunk Railway authority to construct an extension from Bend, Oregon, to a connection with the Cascade Line at Paunina, Oregon, or to a connection with the Oregon, California and Eastern Railway at some appropriate point. In its decision the Commission suggested that the Oregon Trunk Railway and the Southern Pacific should get together and endeavor to arrange for the joint use of the latter's Cascade Line between Paunina and Klamath Falls.

In compliance with the expressed desire of the Commission, your Company used every effort to reach an agreement with the Oregon Trunk Railway for such joint use. The Oregon Trunk was offered the equal joint use of that part of your Company's Cascade Line between Paunina and Klamath Falls, a distance of 75.77 miles, with permission to perform local service; either party to be permitted to construct branches extending either west or east from the main line (the other party to be permitted to join equally therein, if it so desired), provided that any western branches should not extend beyond the summit of the Cascade Range, and that any eastern branches should not extend into territory properly tributary to the Oregon, California and Eastern Railway lines as proposed to be extended. The Oregon Trunk to have access to all industries in Klamath Falls served by your Company with the same switching charge prevailing under like conditions elsewhere in Oregon, and, further, to be permitted to use your Company's line through Klamath Falls, a distance of 3.69 miles, as a bridge line to reach the Oregon Trunk terminals south of Klamath Falls. For these rights your Company asked the Oregon Trunk to pay a rental equivalent to five per cent. per annum on one-half the cost of the joint facilities (but not to exceed \$165,000 per annum), plus one-half the taxes thereon, and to pay a proportion of maintenance and other joint operating expenses on the basis of use.

The Oregon Trunk's proposal was that it should pay as rental a share of five per cent. per annum on the cost of the joint facilities in proportion to their use, with a minimum rental of one-fourth of five per cent. on the cost of such facilities; that taxes, as well as maintenance and other joint operating expenses, should be shared on the basis of the use of the facilities; and that it (the Oregon Trunk) should be permitted to purchase and own a one-half interest in the Oregon, California and Eastern Railway at cost thereof to your Company. If not permitted to acquire the proposed interest in the Oregon, California and Eastern, the Oregon Trunk insisted that it should be permitted to construct a line from Chiloquin, a point 27 miles north of Klamath Falls on the Cascade Line, eastward to Sprague Landing, a distance of 30 miles, and should have the right to extend its line to the east and north from Sprague Landing, such construction however to be at joint expense. The Oregon Trunk, in its memorandum

PROPOSED NEW LINES IN SOUTHERN OREGON AND NORTHERN CALIFORNIA—CONTINUED

to the Commission stated, however, that its annual charge at the terms offered by your Company, together with the charge on the capital cost of the proposed branch from Chiloquin, would exceed the annual charge on the cost of its own proposed line from Paunina to Klamath Falls, and it therefore renewed its request for authority to construct its own line from Bend to Klamath Falls.

On February 15, 1927, the Commission issued a ruling in which, among other things, it stated:

"As stated in the original report, a controlling purpose in our decision upon the application of the Oregon Trunk was that while Southern Oregon should be linked with the northern lines, in doing so unnecessary capital expenditure involved by the construction of an additional through line between Paunina and Klamath Falls should be avoided by the utilization of existing facilities. Such purpose is still controlling. The proposals of the Oregon Trunk for the independent construction of its own line are inconsistent therewith. We regard it as important that there shall be no unnecessary duplication of facilities. We are of the opinion that the present proposal of the Southern Pacific, with the modifications we here suggest, is in substantial compliance with the conclusions announced in our original report. The proposed terms are generally fair. * * * * * An order which will give finality to these conclusions will not be entered at the moment; the Southern Pacific will be allowed 25 days from the service hereof in which to prepare and present to the Oregon Trunk and to file with us a complete draft of contract, and the Oregon Trunk within 20 days after such filing should notify us whether the terms proposed are acceptable, or to except to them as not consistent with our conclusions or with proper usage in trackage agreements."

The Commission stated that "taxes on the property jointly used may properly be apportioned between the parties on the basis of use, in conformity with the more usual practice under similar circumstances." And further, that "the proposed limitation upon the construction of branch lines, or the extension of main lines, is not a proper subject of contract."

Your Company presented to the Oregon Trunk Railway, and filed with the Commission within the time limit allowed by the Commission, a complete draft of contract covering the proposed joint use of the Cascade Line between Paunina and Klamath Falls, Oregon, the terms theretofore offered to the Oregon Trunk being modified, in such contract, to accord with the suggestions of the Commission, but to date of going to press no information has been received as to the attitude of the Oregon Trunk Railway concerning the proposed contract.

In the meantime, your Company, on October 8, 1926, acquired control of the Nevada-California-Oregon Railway (which is operated by its own separate organization) by the purchase of the entire outstanding common stock and funded debt of that Company. No further action will be taken, however, toward the construction and/or acquisition of the other lines contemplated in the plans of your Company, as aforesaid, until the questions concerning the proposed entrance of the Oregon Trunk Railway into the Klamath Basin shall have been determined, and an appropriate order in connection with our application entered by the Commission.

OREGON AND CALIFORNIA RAILROAD LAND GRANT CONTROVERSY

A decree of the United States District Court for Oregon was rendered, and entered, on April 28, 1926, in the accounting suit mentioned on page 23 of last year's report. This decree, in effect, adjudged that, subject to certain adjustments as mentioned in the decree, the Oregon & California Railroad Company, with its lien holder, the Central Union Trust Company of New York, Trustee, under Oregon & California Railroad Company's First Mortgage of July 1, 1887, recover from the United States the sum of \$3,901,088.64, of which the sum of \$1,723,470.56 was to be paid to the Oregon & California Railroad Company, and the sum of \$2,177,618.08 to said Central Union Trust Company of New York.

On June 25, 1926, the above mentioned sums of \$1,723,470.56, and \$2,177,618.08, were paid by the United States to the Oregon & California Railroad Company, and to the Central Union Trust Company of New York, respectively.

The decree designated certain parcels of land aggregating 769,639 acres, included in the acreage for which compensation was allowed under the decree, and provided that if and when any of the land embraced in the said 769,639 acres should hereafter be found to be mineral land within the meaning of the Granting Acts, then the Railroad Company should repay to the United States the sum of \$2.50 per acre for each acre so determined to be mineral land within the meaning of said Granting Acts.

SOUTHERN PACIFIC RAILROAD COMPANY OF MEXICO

At the time of publishing last year's report, it was thought that the 102.78 mile gap in the main line between Tepic and La Quemada would be completed and ballasted by January, 1927, but unexpected difficulties in the nature of slides and heavy formation in tunnels, storms of unprecedented severity in the latter part of the year, and the unsettled condition of the Country, caused the work to be delayed. At the end of the year, however, all the tunnel excavations and all the grading had been completed, and all but about 4.11 miles of track, laid. The ballasting of the new line is being pushed as rapidly as possible, and it is now thought that the new line, completely ballasted, will be ready for operation early in April, 1927.

EXTENSION OF SAN ANTONIO AND ARANSAS PASS RAILWAY INTO RIO GRANDE VALLEY

On July 31, 1926, the Interstate Commerce Commission authorized the San Antonio & Aransas Pass Railway Company to construct a line of railroad, approximately 85 miles in length, extending from the present terminus of the Falfurrias Branch, southerly through Brooks and Hidalgo counties, to the International boundary line between the United States and the Republic of Mexico; also a branch line from the City of Edinburg, on the above line, easterly through Hidalgo and Cameron counties to the City of Harlingen, a distance of approximately 35 miles. The work of construction was commenced immediately upon receipt of the Commission's order, and at the end of the year approximately 73 miles of the extension from Falfurrias south, and 10 miles of the branch from Edinburg to Harlingen, had been completed, while the grading of the remainder of the mileage, ready for ties and rails, was about completed. Regular freight and passenger service between Falfurrias and McAllen, and freight service on 15 miles of the line east of Edinburg, was established early in February, 1927.

Application for authority to extend the Harlingen Branch from Harlingen to Brownsville, was filed with the Commission on October 21, 1926, and a hearing on this application was held at Houston, December 2, 1926. The Commission has not yet rendered its decision on this application.

ACQUISITION OF CONTROL OF THE DAYTON-GOOSE CREEK RAILWAY COMPANY

Pursuant to authority granted by the Interstate Commerce Commission, control of the Dayton-Goose Creek Railway Company was acquired as of May 1, 1926, the Southern Pacific Company acquiring control through stock ownership, and the Texas & New Orleans Railroad Company, a Southern Pacific Company subsidiary, acquiring control by lease, since which date the line of the said Company, extending from Baytown, Texas, to a connection with the line of the Texas & New Orleans Railroad Company at Dayton, Texas, a distance of 24.99 miles has been operated by the last named company. The Baytown Refinery of the Humble Oil & Refining Company, located on this line, furnishes a large amount of revenue traffic.

UNIFICATION OF TEXAS AND LOUISIANA LINES BY LEASE TO TEXAS AND NEW ORLEANS RAILROAD COMPANY

On September 23, 1926, application was made to the Interstate Commerce Commission for authority to unify the operations of all your Company's lines in Texas and Louisiana through the medium of leases to the Texas and New Orleans Railroad Company (a solely controlled subsidiary of your Company) of the properties of the following companies, which, together with the Texas & New Orleans Railroad, comprise that part of the Transportation System known as the Texas and Louisiana Lines:

- Franklin & Abbeville Railway Company
- Galveston, Harrisburg & San Antonio Railway Company
- Houston, East & West Texas Railway Company
- Houston & Shreveport Railroad Company
- Houston & Texas Central Railroad Company
- Iberia & Vermilion Railroad Company

UNIFICATION OF TEXAS AND LOUISIANA LINES BY LEASE TO TEXAS AND NEW ORLEANS RAILROAD COMPANY—CONTINUED

Lake Charles & Northern Railroad Company
Louisiana Western Railroad Company
Morgan's Louisiana & Texas Railroad & Steamship Company
San Antonio & Aransas Pass Railway Company
Southern Pacific Terminal Company

The Commission approved this application by an order, dated December 28, 1926, and the unification was made effective March 1, 1927. It is expected that as a result of this unification considerable saving will be effected by a reduction in accounting work.

ROCKAWAY PACIFIC CORPORATION

On July 9, 1926, the New York Court of Appeals unanimously affirmed a judgment of the Appellate Division, which in turn affirmed a judgment of the Court of Claims, awarding the Rockaway Pacific Corporation damages on account of the appropriation by the State of New York, on April 4, 1917, of the property on Rockaway Point, Queens County, New York, now known as Fort Tilden; and further decreeing that the Corporation owned the entire remainder of the westerly end of Rockaway Point to mean low water. Pursuant to this award the Corporation received, including interest to date of payment, the sum of \$2,051,753.01. The area of the property which has thus been adjudicated, and which is still owned by the Corporation, consists of approximately 565 acres. The City of New York has instituted an ejectment action to re-try the title to the property in question, and the judgments above mentioned have been pleaded as a defense.

FEDERAL VALUATION OF RAILROADS

The Act of Congress, approved March 1, 1913, known as the Federal Valuation Act, and amendments thereof, directs the Interstate Commerce Commission to determine the valuation of the transportation properties of each railway corporation in the United States, engaged in interstate commerce and subject to the Interstate Commerce Act.

In connection with the valuation of the property of each of such railway corporations, the Act directs the Commission, among other things, to ascertain

1. The original cost of such property to date of valuation;
2. The cost of reproduction new;
3. The cost of reproduction new, less depreciation;
4. The present value of lands held for, and used in the service of transportation; and

numerous other facts, as set forth in the statute, which are assumed to have a bearing upon the valuation of such properties. The Act also directs the Commission, in making such valuation, to take into account any and all elements of value which may be found to exist.

Upon the completion of the valuation of any of such properties, the Commission is further directed to prepare, and to serve upon the owning carrier, a tentative valuation wherein shall be set forth the value placed upon the property by the Commission together with the Commission's findings of fact concerning the matters referred to in the next preceding paragraph. This tentative valuation is thereafter, within a specified time, subject to protest by the carrier, in which event provision is made for formal hearing and determination by the Commission.

Shortly after the effective date of the Valuation Act, your Company formed, and has since maintained, an organization known as the Valuation Department, which has actively cooperated with the field organization of the Interstate Commerce Commission in the preparation of a complete field inventory of all the transportation properties of the Southern Pacific Lines and Affiliated Companies. In addition to this cooperative work, the Valuation Department has been engaged in preparing valuations, based on the provisions of the Valuation Act as understood by the Valuation Department, of the transportation properties of the various companies, for the purpose of comparison with the tentative valuations of such properties served by the Commission's Bureau of Valuation, and to serve as a basis for any protests to such tentative valuations which it may be found necessary to make to protect the interests of your Company. For this purpose your Company has expended, to December 31, 1926, the sum of \$7,400,758, of which the sum of \$994,649 was expended during the current year.

FEDERAL VALUATION OF RAILROADS—CONTINUED

To December 31, 1926, the Commission's Bureau of Valuation has served tentative valuations on the following companies the lines of which are included in the Transportation System of the Southern Pacific Lines:

NAME OF COMPANY	Date of Tentative Valuation
TEXAS AND LOUISIANA LINES	
1. Dayton-Goose Creek Ry. Co.....	December 31, 1920
2. Franklin & Abbeville Ry. Co.....	June 30, 1919
3. Galveston, Harrisburg & San Antonio Ry. Co.....	June 30, 1918
4. Houston, East & West Texas Ry. Co.....	do
5. Houston & Shreveport R. R. Co.....	do
6. Houston & Texas Central R. R. Co.....	do
7. Iberia & Vermilion R. R. Co.....	do
8. Lake Charles & Northern R. R. Co.....	do
9. Louisiana Western R. R. Co.....	do
10. Morgan's Louisiana & Texas R. R. & S. S. Co.....	do
11. Southern Pacific Terminal Co.....	do
12. San Antonio & Aransas Pass Ry. Co.....	June 30, 1919
13. Texas & New Orleans R. R. Co.....	June 30, 1918
14. Texas State Railroad (Leased from State of Texas).....	June 30, 1917
PACIFIC LINES	
15. Alamogordo & Sacramento Mountain Ry. Co.....	June 30, 1917
16. Arizona & New Mexico Ry. Co.....	do
17. Arizona Eastern R. R. Co.....	June 30, 1915
18. Burro Mountain R. R. Co.....	June 30, 1917
19. Dawson Ry. Co.....	do
20. El Paso & Northeastern R. R. Co.....	do
21. El Paso & Northeastern Ry. Co.....	do
22. El Paso & Rock Island Ry. Co.....	do
23. El Paso & Southwestern R. R. Co.....	do
24. El Paso & Southwestern R. R. Co. of Texas.....	do
25. Phoenix & Eastern R. R. Co.....	June 30, 1915

In the case of each of such tentative valuations formal protest was filed within the statutory period. Hearings have been held in the case of the companies numbered 1, 2, 12, and 14, and a partial hearing in the case of the company numbered 16. In the case of none of these companies, however, has a final valuation been served by the Commission.

Although preliminary engineering, land, and accounting reports have been served on the Southern Pacific Company in respect of the following properties owned and/or operated by it as part of the Transportation System of the Southern Pacific Lines, the tentative valuation of such properties has not yet been served by the Commission:

NAME OF COMPANY OWNING PROPERTY OPERATED BY SOUTHERN PACIFIC COMPANY AS OF THE DATE OF TENTATIVE VALUATION	Date of Tentative Valuation
SOUTHERN PACIFIC STEAMSHIP LINES	
1. Southern Pacific Company.....	June 30, 1916
PACIFIC LINES	
2. Southern Pacific Company (Rail Lines).....	June 30, 1916
3. Beaverton & Willsburg R. R. Co.....	do
4. Central Pacific Ry. Co.....	do
5. Coast Line Ry. Co.....	do
6. Fresno Traction Co.....	do
7. Hanford & Summit Lake Ry. Co.....	do
8. Inter-California Ry. Co.....	do
9. New Mexico & Arizona R. R. Co.....	do
10. Oregon & California R. R. Co.....	do
11. Peninsular Ry. Co.....	do
12. Porterville Northeastern Ry. Co.....	do
13. South Pacific Coast Ry. Co.....	do
14. Southern Pacific R. R. Co.....	do
15. Tucson & Nogales R. R. Co.....	do

FEDERAL VALUATION OF RAILROADS—CONTINUED

It is anticipated that tentative valuations of such properties will be served by the Commission on the Southern Pacific Company in the near future.

In addition to its transportation system lines, your Company solely controls ten other transportation companies owning steam and electric lines in the United States, each of which operates its own property. To December 31, 1926, tentative valuations had been served upon but three of such companies.

GENERAL

The dividends for the year on the capital stocks of the Southern Pacific Company and its Transportation System Companies held by the public, amounted to \$22,343,004.32, as follows:

Dividends on capital stock of the Southern Pacific Company:

1½ per cent. paid April 1, 1926.....	\$5,585,713.58
1½ per cent. paid July 1, 1926.....	5,585,713.58
1½ per cent. paid October 1, 1926.....	5,585,713.58
1½ per cent. payable January 3, 1927.....	5,585,713.58

Total Southern Pacific Company.....\$22,342,854.32

Dividends on stocks of Transportation System Companies held by the public.....150.00

Total dividend payments for the year.....\$22,343,004.32

The total taxes for the year amounted to\$21,476,810.65

Under the pension system put into effect January 1, 1903, there were carried on the pension rolls at the end of the year, 1,785 employees. The payments to pensioners for the year amounted to \$1,004,740.25, equivalent to six per cent. per annum on an investment of \$16,745,670.83.

The Board announces with sorrow the death, on June 24, 1926, of Mr. Cleveland H. Dodge, who served your Company as a Director from December 11, 1924, to the time of his death; and on December 20, 1926, of Mr. William R. Scott, President of the Texas and Louisiana Lines of your Company, who entered the service in 1903. Copies of the resolutions adopted by the Board at its meetings on July 8, 1926, and on December 23, 1926, respectively, are appended to this report. Mr. Cleveland E. Dodge was elected a Director of your Company to fill the vacancy caused by the death of Mr. Cleveland H. Dodge; and Mr. A. D. McDonald was elected President of the Texas and Louisiana Lines to fill the vacancy caused by the death of Mr. W. R. Scott. Mr. McDonald will continue as Vice Chairman of your Company, his office remaining in New York. Mr. H. M. Lull has been elected Executive Vice President of the Texas and Louisiana Lines, with headquarters at Houston, Texas, and, under the direction of President McDonald, will have immediate charge of the management and operations of those lines.

The Board gratefully acknowledges its appreciation of the loyal and efficient services rendered by officers and employees during the year.

By order of the Board of Directors,

HENRY W. DE FOREST,

Chairman of the Executive Committee.

CLEVELAND H. DODGE

NEW YORK, July 8, 1926.

At a regular meeting of the Board of Directors of the Southern Pacific Company held in the City of New York, on the eighth day of July, 1926, the following tribute was offered and unanimously adopted:

IN MEMORY

OF

CLEVELAND H. DODGE

DIRECTOR OF THE SOUTHERN PACIFIC COMPANY

FROM DECEMBER 11, 1924, TO JUNE 24, 1926.

Mr. Dodge became a welcome and active member of the Southern Pacific Board on December 11, 1924, shortly after its acquisition of the El Paso & Southwestern properties, in which he was largely interested and with which he had long been connected, and the Board of Directors now records with profound sorrow his death at his home, Riverdale-on-Hudson, New York, on the night of June 24, 1926, at the age of sixty-six.

Taken away in the eventide of a busy and useful life, noted for the fullness of its intellectual and spiritual vigor, inspired always by the spirit of helpfulness to others, with a record of high aims, active accomplishment, philanthropic effort and responsibilities ably met, the Company has lost a most able adviser, and his associates on this Board feel keenly the passing of a valued friend.

RESOLVED, That this tribute to his memory be inscribed on the minutes of the Company, and a copy be given his family to whom the Board extends profound sympathy in their great sorrow.

A true copy.

Attest:

HUGH NEILL,

Secretary.

WILLIAM R. SCOTT

NEW YORK, December 23, 1926.

At a special meeting of the Board of Directors of the Southern Pacific Company held in New York City, on the twenty-third day of December, 1926, the following tribute was offered and unanimously adopted:

IN MEMORY

OF

WILLIAM R. SCOTT

The Board records with deep sorrow the death of Mr. William R. Scott, President of Southern Pacific Texas and Louisiana Lines, on December 20, 1926, at Los Angeles, California, in the sixty-seventh year of his age.

He became associated with the Company in 1903, as Division Superintendent attached to the Pacific Lines; later held, successively, the offices of General Superintendent, Assistant General Manager, General Manager, and Vice President and General Manager; and on March 1, 1920, was elected to the Presidency of the Southern Pacific Texas and Louisiana Lines, continuing in that office until his passing away.

During this continuous period of more than twenty-three years he served the Southern Pacific Lines with great ability, tireless energy, fidelity and zeal.

We desire to give expression to our profound sorrow, and the sense of personal loss which his death brings to us all.

RESOLVED, That this brief statement be inscribed upon the minutes of the Company and that an engrossed copy be furnished to his family to whom the Board tenders its deep sympathy in their great sorrow.

A true copy.

Attest:

HUGH NEILL,

Secretary.

DIAGRAMS

Diagrams will be found on pages 30, 31, 32, 33, 34, and 35, as follows:

- No. 1. Railway operating revenues and miles of road;
- No. 2. Passenger service and traffic;
- No. 3. Freight service and traffic;
- No. 4. Average train load and tons per loaded car;
- No. 5. Taxes per mile of road, and per cent. of net revenue from railway operations consumed in taxes; and
- No. 6. Investment in road and equipment, net railway operating income, and the per cent. of return on investment in road and equipment.

From 1885, up to and including 1895, and for the year 1917 and thereafter, the results are for years ended December 31st. The results for 1897 are based on the average for 18 months from January 1, 1896, to June 30, 1897. For the years 1898 to 1916, inclusive, the results are for years ended June 30th. Although the Company operated but 10 months in the year 1885, for the purpose of comparison the results for the entire year have been ascertained.

The year ended June 30, 1899, and subsequent years, include the operations of the New Mexico & Arizona Railroad.

The year ended June 30, 1900, and subsequent years, to and including the year ended June 30, 1912, include the operations of the Sonora Railway, leased from the Atchison, Topeka & Santa Fé Railway Company, which lease was terminated upon the sale of the property of the Sonora Railway Co., Ltd., to the Southern Pacific Railroad Co. of Mexico as of June 30, 1912.

The year ended June 30, 1901, and subsequent years, include the operations of the Houston & Texas Central Railroad and lines in Texas subsidiary thereto.

The year ended June 30, 1913, and subsequent years, include the operations of the Arizona Eastern Railroad and of the Corvallis and Eastern Railroad. The latter property was purchased by the Southern Pacific Company July 1, 1915; and the former was leased to Southern Pacific Company on November 8, 1924.

The year ended June 30, 1916, and subsequent years, include the operations of the Lake Charles and Northern Railroad; also the operations of the properties formerly belonging to the Coos Bay, Roseburg & Eastern Railroad & Navigation Company, Pacific Railway & Navigation Company, Portland, Eugene & Eastern Railway Company, Salem, Falls City & Western Railway Company, and Willamette Pacific Railroad Company, which were purchased by Southern Pacific Company as of July 1, 1915.

The year ended December 31, 1923, and subsequent years, include the operations of the Southern Pacific Equipment Company.

From and after November 1, 1924, the operations include the Alamogordo & Sacramento Mountain Ry., Arizona & New Mexico Ry., Burro Mountain R. R., Dawson Ry., El Paso & Northeastern R. R., El Paso & Northeastern Ry., El Paso & Rock Island Ry., El Paso & Southwestern R. R., and the El Paso & Southwestern R. R. of Texas, control of which, by stock ownership and by lease, was acquired by Southern Pacific Company as of November 1, 1924.

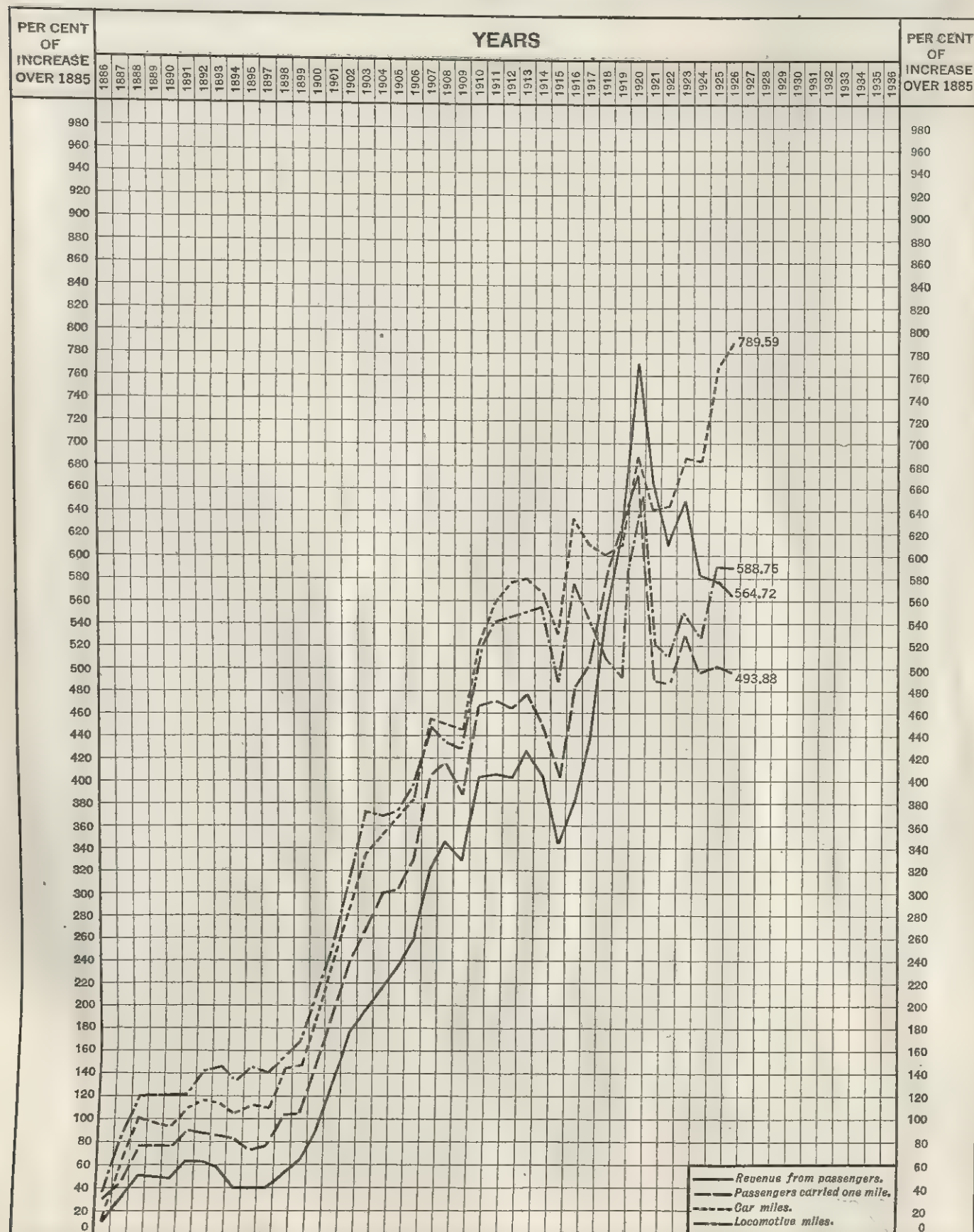
The years ended December 31, 1925, and December 31, 1926, include the operations of the Franklin & Abbeville Ry., previously dealt with as a separately operated affiliated company; and, also include operations from May 1, 1925, of the property of the San Antonio & Aransas Pass Ry. Co., which was leased to the Galveston, Harrisburg & San Antonio Ry. Co. as of May 1, 1925.

The year ended December 31, 1926, includes operations from May 1 to December 31, 1926, inclusive, of the property of the Dayton-Goose Creek Ry. Co., which was leased to the Texas & New Orleans R. R. Co. as of May 1, 1926.

SOUTHERN PACIFIC LINES
 DIAGRAM NO. 2.—PASSENGER SERVICE AND TRAFFIC.

Showing by years, to December 31, 1926, the per cent. of increase over the calendar year 1885, in passenger revenue (excluding water lines, water transfers, and auto bus operations), in the number of passengers carried one mile, and in the number of miles run by cars and by locomotives in passenger-train service.

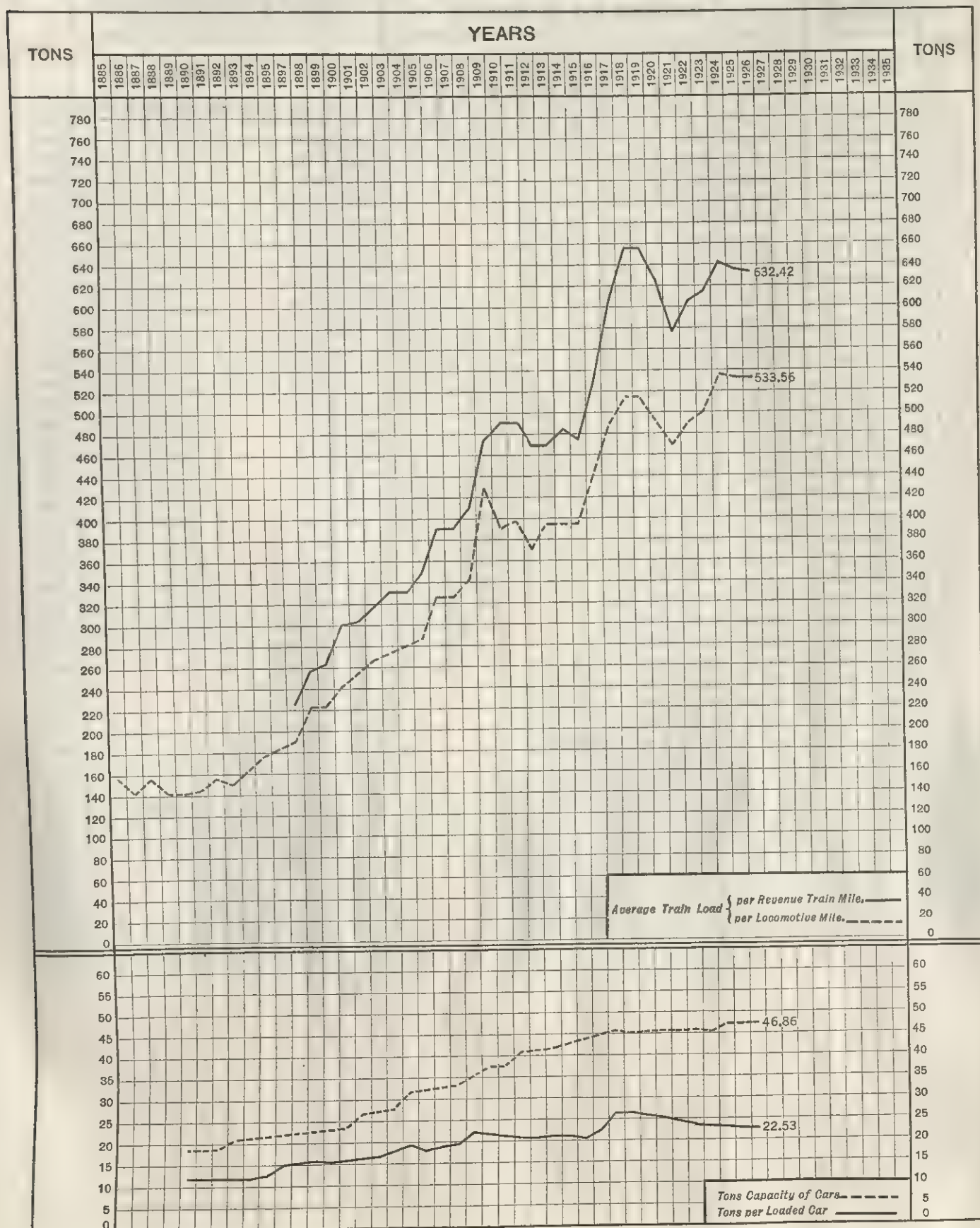
Locomotive miles include all locomotive miles run with passenger trains, and one-fourth of the locomotive miles run with mixed trains.



SOUTHERN PACIFIC LINES
 DIAGRAM NO. 4.—AVERAGE TRAIN LOAD AND TONS PER LOADED CAR.

Showing by years, from 1885 to 1926, the average train load per locomotive mile (all freight), and from 1897 to 1926, the average train load per revenue train mile (all freight); also showing by years, from 1889 to 1926, the tonnage capacity of freight cars and the average tons per loaded car.

The locomotive miles used include all locomotive miles run with freight trains and three-fourths of the locomotive miles run with mixed trains. The freight train miles used include all the freight train miles and three-fourths of the mixed train miles.



SOUTHERN PACIFIC LINES

DIAGRAM NO. 6.—INVESTMENT IN ROAD AND EQUIPMENT, NET RAILWAY OPERATING INCOME, AND THE PER CENT. OF RETURN ON INVESTMENT IN ROAD AND EQUIPMENT.

Showing by years, from 1912 to 1926, the investment in road and equipment, the net railway operating income, and the per cent. of return on investment in road and equipment.

